

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Local Development Finance Authority of Lap	County Lapeer
Fiscal Year End 6/30/06	Opinion Date 8/25/06	Date Audit Report Submitted to State 12/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Layton and Richardson, P.C.		Telephone Number 517-332-1900	
Street Address 1000 Coolidge Road		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature <i>Vickie L. Crouch, CPA</i>	Printed Name Vickie Crouch		License Number 1101013436

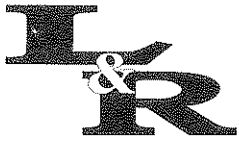
LOCAL DEVELOPMENT FINANCE AUTHORITY
OF THE CITY OF LAPEER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Commissioners
of the City of Lapeer
Lapeer, Michigan

We have audited the accompanying basic financial statements of the governmental activities of the LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE CITY OF LAPEER, MICHIGAN as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Local Development Finance Authority of the City of Lapeer, Michigan, as of June 30, 2006, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of the Local Development Finance Authority of the City of Lapeer, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Local Development Finance Authority of the City of Lapeer, Michigan's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Layton & Richardson, P.C.

Certified Public Accountants

August 25, 2006
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Management's Discussion and Analysis

Our discussion and analysis of the Local Development Finance Authority of the City of Lapeer's financial performance provides an overview of the Local Development Finance Authority's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Local Development Finance Authority's financial statements.

FINANCIAL HIGHLIGHTS

- Reimbursement to the City of Lapeer for the Elba Township property tax payment in accordance with the Land Transfer Agreement between the City of Lapeer and Elba Township in the net amount of \$43,572.00.
- Webasto Thermosystems, Inc. facility at 3333 John Conley Drive, which is approximately 14,687 square feet, was purchased by PTL Engineering, Inc. at a price of \$1,690,000. PTL Engineering, Inc. is a manufacturer of components for the RV Industry. Additionally, they have applied for a transfer of the IFT Certificate held by Webasto Thermosystems, Inc. and will retain 26 existing jobs and have estimated creating an additional 20 jobs.
- ESE, LLC is currently constructing a 10,500 square foot facility at a cost of \$850,000 at 3344 John Conley Drive and will also invest \$375,000 in personal property. ESE, LLC designs customer specific devices to inspect, test, assemble, manufacture or aid in the manufacture of automotive, marine, and aerospace parts. They have applied for and received an IFT Certificate for this project and will retain 7 jobs and have estimated creating an additional 3 jobs.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Local Development Finance Authority as a whole and present a longer-term view of the Local Development Finance Authority's finances. Fund financial statements provide more detailed information about the Local Development Finance Authority's funds- not the Local Development Finance Authority as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending.

Reporting the Local Development Finance Authority as a Whole

One of the most important questions asked about the Local Development Finance Authority's finances is, "Is the Local Development Finance Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Local Development Finance Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Local Development Finance Authority's *net assets* and changes in them. You can think of the Local Development Finance Authority's net assets – the difference between assets and liabilities – as one way to measure the Local Development Finance Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Local Development Finance Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Local Development Finance Authority's captured property tax base to assess the *overall health* of the Local Development Finance Authority:

In the Statement of Net Assets and the Statement of Activities, the Local Development Finance Authority is shown as a governmental activity while within the City of Lapeer's audit they are shown as a component unit:

- Governmental activities – The Local Development Finance Authority's services are reported here. Property taxes finance most of these activities.

Reporting the Local Development Finance Authority's Most Significant Funds

The fund financial statements provide detailed information about the Local Development Finance Authority's funds. The Local Development Finance Authority's funds utilize the *governmental* accounting approach.

- *Governmental funds* – Most of the Local Development Finance Authority's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Local Development Finance Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Local Development Finance Authority's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

THE LOCAL DEVELOPMENT FINANCE AUTHORITY AS A WHOLE

Table 1 was summarized from the Local Development Finance Authority Statement of Net Assets. The net assets of the Local Development Finance Authority increased from \$721,782 to \$885,922, an increase of \$164,140 or 22.7%. In the prior year, the net assets increased from \$626,817 to \$721,782, an increase of \$94,965 or 15.2%.

Table 1
Net Assets
(In Thousands)

	<u>Governmental Activities</u> 2006	<u>Governmental Activities</u> 2005
Current and other assets	\$ 679.1	\$ 515.0
Capital assets	<u>206.8</u>	<u>206.8</u>
Total assets	<u>885.9</u>	<u>721.8</u>
Long-term debt		
Outstanding	0.0	0.0
Other liabilities	<u>0.0</u>	<u>0.0</u>
Total liabilities	<u>0.0</u>	<u>0.0</u>
Net assets:		
Invested in capital assets,		
Net of debt	206.8	206.8
Restricted	0.0	0.0
Unrestricted (deficit)	<u>679.1</u>	<u>515.0</u>
Total net assets	<u>\$ 885.9</u>	<u>\$ 721.8</u>

Governmental Activities

As stated previously, the net assets of the Local Development Finance Authority's governmental activities increased by \$164,140 or 22.7%. Unrestricted net assets – the part of net assets that can be used to finance day –to –day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-is recorded as a surplus of \$679,148.56.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the Local Development Finance Authority.

Table 2
Changes in Net Assets
(In Thousands)

	Governmental <u>Activities</u> <u>2006</u>	Governmental <u>Activities</u> <u>2005</u>
Revenues:		
Program revenues:		
Charges for Services	\$ 0.0	\$ 0.0
Operating grants and contributions	0.0	0.0
General revenues:		
Property taxes	63.4	43.6
Other	<u>23.3</u>	<u>7.1</u>
Total Revenues	<u>86.7</u>	<u>50.7</u>
Expenses:		
General government	\$ 69.2	\$ 45.2
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>69.2</u>	<u>45.2</u>
Increase in net assets		
Before transfers	17.5	5.5
Transfers	<u>146.6</u>	<u>89.5</u>
Increase in Net Assets	164.1	95.0
Net assets, July 1	<u>721.8</u>	<u>626.8</u>
Net assets, June 30	<u>885.9</u>	<u>721.8</u>

Total revenue from all sources totaled \$86,775 of which 73.1% or \$63,426 is from property taxes. Other revenues consist of unrestricted investment earnings of \$23,349. The Local Development Finance Authority also receives a transfer of captured taxes from the General Fund of the City of Lapeer in the amount of \$162,870. The Local Development Finance Authority captured the City of Lapeer millage rate of 9.8000 and the county operation millage of 3.8165 for this fiscal year.

The governmental activities of the Local Development Finance Authority had an expense of \$69,219 for the past fiscal year. Due to utilizing full accrual on the government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current year depreciation would be included as an expense. Additionally, the Local Development Finance Authority had transfers to the General Fund in the amount of \$16,287 for payment of the city administration fee.

The \$69,219 for governmental activities along with the transfers of \$16,287 to the general fund of the City of Lapeer is funded from \$63,426 in property taxes. Additionally, the balance of this cost is funded from transfers from the City of Lapeer General Fund for captured taxes in the amount of \$162,870 and other revenues.

THE LOCAL DEVELOPMENT FINANCE AUTHORITY'S FUNDS

The Local Development Finance Authority received a total of \$226,296 in captured property taxes. The Local Development Finance Authority expended funds on various projects this year which included the reimbursement to the City of Lapeer for the Elba Township property tax payment in accordance with the Land Transfer Agreement between the City of Lapeer and Elba Township in the net amount of \$43,572. Other expenses of the district include legal and accounting fees of \$21,380, landscaping and lot maintenance of \$2,430 and miscellaneous expenses for a survey in the amount of \$1,837. Additionally, the district pays an administration fee to the City of Lapeer in the amount of \$16,287 for accounting services and project management.

Local Development Finance Authority Budgetary Highlights

The difference between the original budget and the amended budget was an increase of \$1,278 or 0.2%, which is summarized as follows:

- \$7,500 increase to provide additional funding for Legal/Accounting Fees was offset by a reduction in Planning for Future Projects in the amount of \$6,222 resulting in an overall increase in the budget of \$1,278.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Local Development Finance Authority's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$206,773.89 (net of accumulated depreciation). This investment in capital assets is for land. The Local Development Finance Authority's investment in capital assets did not change from the prior fiscal year.

There were no major capital asset events during the current fiscal year.

Debt

The Local Development Finance Authority does not have any outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Inflationary trends in the region compare favorably to national indices.
- Projected captured taxable value as determined by the City Assessor.

These factors were considered in preparing the Local Development Finance Authority of Lapeer's budget for Fiscal Year 2006-2007.

The Local Development Finance Authority reviews its current budget to determine available fund balances to be appropriated for the new year budget. This, along with the projected captured taxable value from the city assessor, provides the basis of establishing the annual budget. Funds are appropriated based upon project recommendations made by the City of Lapeer staff to the Local Development Finance Authority Board. Funds not appropriated for specific projects are budgeted as "Planning for Future Projects". These funds can then be utilized to fund any project that may develop during the fiscal year or to provide additional funding to a project if actual costs were to exceed the budget.

Requests for Information

This financial report is designed to provide a general overview of the Local Development Finance Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2006

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash - checking	\$ 668,461.60	\$	\$ 668,461.60
Cash - savings	4,482.84		4,482.84
Due from other funds	6,204.12		6,204.12
Capital assets		<u>206,773.89</u>	<u>206,773.89</u>
	<u>\$ 679,148.56</u>	<u>\$ 206,773.89</u>	<u>\$ 885,922.45</u>
LIABILITIES AND FUND BALANCE			
FUND BALANCE			
Invested in capital assets, net of related debt	\$	\$ 206,773.89	\$ 206,773.89
Unreserved	<u>679,148.56</u>		<u>679,148.56</u>
	<u>\$ 679,148.56</u>	<u>\$ 206,773.89</u>	<u>\$ 885,922.45</u>

See accompanying notes to financial statements.

LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds	\$ 679,148.56
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 206,773.89 and the accumulated depreciation is \$-0-.	<u>206,773.89</u>
Total net assets - governmental activities	<u><u>\$ 885,922.45</u></u>

See accompanying notes to financial statements.

LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES/EXPENSES			
General government	\$ <u>69,218.60</u>	\$ <u> </u>	\$ <u>69,218.60</u>
REVENUES			
General revenues			
Property taxes	63,426.30		63,426.30
Interest income	23,349.07		23,349.07
Transfers - internal activities	<u>146,583.20</u>	<u> </u>	<u>146,583.20</u>
	<u>233,358.57</u>	<u> </u>	<u>233,358.57</u>
CHANGES IN NET ASSETS	164,139.97		164,139.97
FUND BALANCE/NET ASSETS, JULY 1	<u>515,008.59</u>	<u>206,773.89</u>	<u>721,782.48</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>679,148.56</u></u>	\$ <u><u>206,773.89</u></u>	\$ <u><u>885,922.45</u></u>

See accompanying notes to financial statements.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1: REPORTING ENTITY

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Local Development Finance Authority is considered a component unit of the City of Lapeer, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the Local Development Finance Authority of the City of Lapeer are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Lapeer, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Local Development Finance Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statement

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) reports information on all of the nonfiduciary activities of the Local Development Finance Authority of the City of Lapeer. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statement is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Governmental fund financial statement is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2006

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded**

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Local Development Finance Authority as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years

NOTE 3: **CASH AND INVESTMENTS**

Investments consist principally of CD's. Investment income is credited to the cash account as it is received.

State statutes authorize the City Treasurer to invest in obligations of the U.S. Treasury, agencies and instrumentalities; certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC); commercial paper rated in the three highest rate classifications of two rating services; United States government or federal agency obligation repurchase agreements; and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2006

NOTE 3: CASH AND INVESTMENTS - Concluded

Authority's Cash and Investment Pool

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to the government. As of June 30, 2006, \$573,802.90 of the Authority's total bank balance of \$673,802.90 (total book balance was \$672,944.44) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The Authority's investment policy requires that only those banks or savings and loan institutions that are members of the FDIC or FSLIC will be considered for depository purposes, but recognizes that it is impractical to insure all bank deposits due to the limitations of depository insurance. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk. The Authority's investments in financial institutions will be held with a qualified institution.

The Authority has adopted a formal investment policy as required by Act 20, P.A. 1943 as amended, that complies with State law.

NOTE 4: CAPITAL ASSETS

A summary of changes in the Authority's capital assets is as follows for the year ended June 30, 2006:

	JULY 1	ADDITIONS	DELETIONS	JUNE 30
Capital assets not being depreciated				
Land	\$ <u>206,773.89</u>	\$ _____	\$ _____	\$ <u>206,773.89</u>

These assets were purchased by the Local Development Finance Authority. They are in the name of the City of Lapeer.

NOTE 5: OPERATING TRANSFERS

The following are the operating transfers for the year ended June 30, 2006:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Local Development Finance Authority	\$ <u>146,583.20</u>	General	\$ <u>146,583.20</u>

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES

FUND	DUE FROM	FUND	DUE TO
Local Development Finance Authority	\$ <u>6,204.12</u>	General	\$ <u>6,204.12</u>

REQUIRED SUPPLEMENTARY INFORMATION

**LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

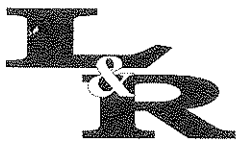
BUDGET AND ACTUAL

GENERAL OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Property taxes	\$ 64,048.30	\$ 64,048.30	\$ 63,426.30	\$ (622.00)
Interest earnings	5,000.00	5,000.00	23,349.07	18,349.07
TOTAL REVENUES	69,048.30	69,048.30	86,775.37	17,727.07
EXPENDITURES				
Attorney/accounting	21,500.00	29,000.00	21,379.59	7,620.41
Landscaping and lot maintenance	2,500.00	2,500.00	2,430.01	69.99
Elba Township Mills	43,572.00	43,572.00	43,572.00	
Planning for future projects	655,344.84	649,122.39		649,122.39
Survey/miscellaneous	5,000.00	5,000.00	1,837.00	3,163.00
TOTAL EXPENDITURES	727,916.84	729,194.39	69,218.60	659,975.79
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(658,868.54)	(660,146.09)	17,556.77	677,702.86
OTHER FINANCING SOURCES (USES)				
Operating transfers in	162,870.22	162,870.22	162,870.20	(0.02)
Operating transfers out	(16,287.00)	(16,287.00)	(16,287.00)	
TOTAL OTHER FINANCING SOURCES (USES)	146,583.22	146,583.22	146,583.20	(0.02)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(512,285.32)	(513,562.87)	164,139.97	677,702.84
FUND BALANCE, JULY 1	515,008.59	515,008.59	515,008.59	
FUND BALANCE, JUNE 30	\$ 2,723.27	\$ 1,445.72	\$ 679,148.56	\$ 677,702.84

SUPPLEMENTARY INFORMATION



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Commissioners
City of Lapeer
Lapeer, Michigan

We have audited the accompanying financial statements of the governmental activities of the Local Development Finance Authority of the City of Lapeer, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Local Development Finance Authority of the City of Lapeer, Michigan's basic financial statements and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Local Development Finance Authority of the City of Lapeer, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Local Development Finance Authority of the City of Lapeer, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Local Development Finance Authority of the City of Lapeer, Michigan, in a separate letter dated August 25, 2006.

This report is intended solely for the information and use of management, the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
August 25, 2006

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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Commissioners
City of Lapeer
Lapeer, Michigan

We have audited the financial statements of the LOCAL DEVELOPMENT FINANCE AUTHORITY OF THE CITY OF LAPEER, MICHIGAN for the year ended June 30, 2006, and have issued our report on those statements. As part of our audit, we made a study and evaluation of the Authority's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Local Development Finance Authority may occur and not be detected within a timely period.

Segregation of Duties

Segregation of duties is an arrangement of responsibilities such that the work of one employee serves as a check on the work of others. The least desirable situation is one in which a single employee is responsible for an entire accounting process from the origin of each transaction to the ultimate posting in the general ledger. This situation enhances the likelihood that intentional or unintentional errors will occur and remain undetected.

Because it is often difficult in a small governmental unit to segregate accounting duties, alternative controls should be implemented to compensate for lack of a segregation of duties. Such controls as management supervision are an effective means of improving control and reducing the risk of error without incurring additional cost.

We appreciate the cooperation and assistance provided to us by the management and staff of the Local Development Finance Authority of the City of Lapeer during the audit and we thank them.

Very truly yours,

Certified Public Accountants

East Lansing, Michigan
August 25, 2006

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